

**PX 346**

Message

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**From:** Ron Will [REDACTED]@ripple.com]  
**on behalf of** Ron Will [REDACTED]@ripple.com> [REDACTED]@ripple.com]  
**Sent:** 12/21/2017 8:48:58 AM  
**To:** Leadership DL [Leadership DL <[REDACTED]@ripple.com>]  
**CC:** [REDACTED]@ripple.com>]  
**Subject:** 2018 OKRs / Budget Overview  
**Attachments:** 2018 Transaction Volume OKR Sent to Leadership Dec 2017.xlsx; 2018 Ripple Annual Plan Narrative [Internal].pdf

Team

I've attached 2 files:

1. 2018 OKR Presentation - with the backup of the transaction volume calculations.
2. 2018 Budget narrative - a summary of the 2018 Ripple budget to provide leadership team with overall transparency on the financial model next year.

Please let me know if you have any questions or comments.

We will broadly disseminate the OKRs in January at an all-company meeting. Please do not distribute the budget narrative to your teams without discussing with me - we may want to sanitize some portions.

Best,  
Ron

--  
Ron Will  
Chief Financial Officer | Ripple  
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**Separator Sheet**



# 2018 Annual Plan

Prepared for the Leadership Team

December 2017

## 2018 Ripple Annual Plan

**Budget Process:** The 2018 planning process began with the August Leadership offsite, which served as a forum to begin aligning on high-level strategic goals for 2018. In the months that followed, Finance worked with teams across Sales, BD, Marketing, and Customer Success to develop the overall 2018 sales strategy and top-line targets. With these goals in mind, small, cross-departmental groups met to review key initiatives and craft bottoms-up cost plans that reflect the hiring and resourcing needs for each area across Ripple.

### **Key Assumptions:**

- 2017 results estimated as of early December 2017.
- All GAAP figures align with our current revenue recognition policies and will be revised once the new revenue recognition standards are finalized in early 2018.
- 2018 tax rates have not be adjusted to reflect potential tax reform.

### **Budget Highlights:**

- **Transaction volume** increases to [REDACTED] in 2018 from less than \$ [REDACTED] in 2017 as new and existing partners drive meaningful volume on RippleNet.
- **XRP revenue** grows 34% to \$247.4M in 2018 from \$184.8M in 2017 with the majority of the increase driven by accounting treatment for obligations settled with XRP and XRP investments. XRP bookings is forecasted at \$200.0M in 2018 vs. \$175.4M in 2017 and continue to be made via programmatic sales on digital asset exchanges and large OTC block sales.
- **Software and services revenue** grows to [REDACTED] in 2018 from [REDACTED] in 2017, from our 3 software product offerings xCurrent, xVia and xRapid.
- **Headcount** grows to [REDACTED] at year end 2018 from [REDACTED] at year end 2017 with significant investments in engineering, customer success, sales, compliance and HR. Personnel and related expenses account for approximately [REDACTED] of total expenses.
- **Other operating expenses** increases from [REDACTED] in 2017 to [REDACTED] in 2018, or [REDACTED] due to the expansion of XRP incentive programs to drive transaction volume through RippleNet and XRP, investing in our marketing platform by hosting additional events and conferences as well as public relations activities, and moving to larger facilities to accommodate growing headcount.
- **Net operating losses** are almost completely depleted in 2017 resulting in Ripple becoming a full taxpayer in Q4 2017.
- **Free cash flow** decreases from \$ [REDACTED] in 2017 to \$ [REDACTED] in 2018 due in large part to taxes, as well as increased hiring and other operating costs.

## 2018 Ripple Annual Plan

### Annual Income Statement (\$M)

	2016A	2017F	2018F	'17-'18 Δ\$	'17-'18 Δ%
Revenue					
Cost of Sales					
Gross Profit					
% Margin					
Total Opex					
Operating Income					
% Margin					
Other Income (Expense)					
Net Income					
Ending Cash					
Headcount					

### Quarterly Income Statement (\$M)

	Outlook	2018 Plan				2018 Plan		
	2017	Q1 '18	Q2 '18	Q3 '18	Q4 '18	2018	YoY Δ\$	YoY Δ%
Revenue								
Cost of Sales								
Gross Profit								
% Margin								
S&M								
R&D								
G&A								
Total Opex								
Operating Income								
% Margin								
Other Income (Expense)								
Net Income								



## 2018 Ripple Annual Plan

### Revenue Forecast

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
<b>Revenues</b>										
Software & Services										
XRP	\$6,250	\$31,342	\$51,915	\$95,250	\$184,758	\$68,895	\$50,575	\$63,650	\$64,250	\$247,370
<b>Total Company Revenues</b>										
<b>YoY Growth</b>										
Software & Services										
XRP	56%	1414%	1042%	1803%	1082%	1002%	61%	23%	(33%)	34%
<b>Total Company Revenues</b>										
<b>% of Total Revenues</b>										
Software & Services										
XRP	91%	95%	100%	98%	97%	97%	90%	97%	97%	97%
<b>Total Company Revenues</b>										

Revenue is classified in two categories: Software and Services and XRP. Software and Services represents sales generated from our three software product offerings: xCurrent, xVia and xRapid. XRP consists of sales of XRP that are made programmatically on digital asset exchanges or via over-the-counter ("OTC") block sales to qualified investors. For 2018, we expect to grow Software & Services revenue by █% from \$█ to \$█ and XRP revenue by 34% from \$184.8M to \$247.4M.

**Software & Services:** █ growth in 2018 Software & Services revenue is driven primarily by increased customers going live on RippleNet throughout the year. Following the deployment of █ production customers in 2017, we expect █ new customers to be deployed in 2018. In addition to triggering upfront professional services revenue, go-live also begins revenue recognition on software subscription fees. These recurring subscription fees constitute █% of total Software & Services revenue in 2018. With use of XRP incentives to drive deployments and volume on the network expanding in 2018, we expect credits to limit recognized revenue to some degree. As these deals go live later in 2018, Software & Services revenue is estimated to decrease slightly versus the first half of the year (due to the XRP incentives).

**XRP:** Sales of XRP in 2018 are projected at \$200.0M, up from \$175.4M in 2017. Together with the use of XRP for investments, incentives, or other USD obligations which trigger revenue recognition, we expect a 34% increase in year-over-year XRP revenue to \$247.4M in 2018 from \$184.8M in 2017. \$41.1M of this increase is driven by an uptick in XRP investments and XRP incentives to drive volume on RippleNet, which will not contribute directly to cash inflow.

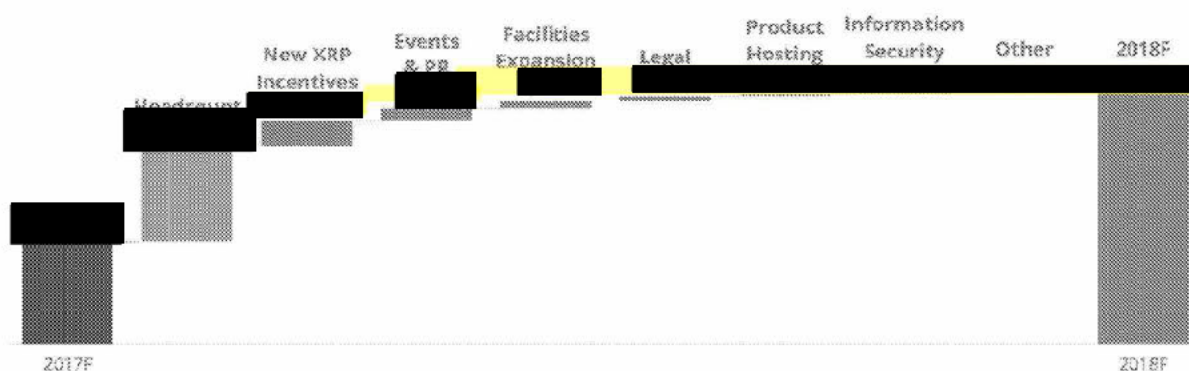
## 2018 Ripple Annual Plan

### Cost of Sales

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Revenue										
Headcount Related Costs										
Travel & Entertainment										
Technical & Other										
Third-Party Integrators										
Cost of Sales										
Gross Profit										
% Margin										

Cost of sales consists predominantly of headcount and travel costs associated with the implementation and deployment of Software & Services contracts. These costs are expected to rise from \$[REDACTED] in 2017 to \$[REDACTED] in 2018 as implementation headcount grows to support RippleNet expansion. Since 2018 revenue is primarily driven by XRP sales, where there are no cost of sales, gross margin is expected to remain flat with 2017 at [REDACTED] %.

### Increase in Expenses from 2017 to 2018



2018 expenses are expected to increase from \$[REDACTED] in 2017 to \$[REDACTED] in 2018, driven primarily by headcount-related costs and incremental spend for new initiatives.

**Headcount Costs:** \$[REDACTED] of the [REDACTED] year-over-year cost increase is driven by employee costs, [REDACTED] of which ([REDACTED]) can be attributed to new hires throughout 2017 who will now be on payroll for the full year. The remaining [REDACTED] of employee-related cost increase reflects overall 2018 headcount growth from [REDACTED] to [REDACTED] by year-end. Additional headcount details are included below.

**Non-Headcount Costs:** The remaining \$[REDACTED] increase in 2018 spend is linked to a handful of key initiatives we plan to pursue next year:

- **New XRP Incentives** - XRP incentive programs are designed to drive adoption and increase transaction volume through both RippleNet and XRP. In 2017, these incentives primarily targeted digital asset exchanges in an effort to broaden the reach of XRP and spur liquidity. The increase from \$[REDACTED] in 2017 to \$[REDACTED] in 2018 reflects an expansion of our programs to



## 2018 Ripple Annual Plan

RippleNet customers through co-marketing opportunities, implementation incentives, and volume-based rewards. The \$[REDACTED] increase in new XRP incentives account for [REDACTED] % of the total increase in expenses in 2018. XRP incentives are structured to paid in XRP, though we often offer a discounted USD option as well. Due to the accounting treatment for XRP, incentives that are settled in XRP (ie non-cash) are recognized as operating expenses.

- **New Events** - In addition to the events and conferences we have participated in the past such as Sibos, Consensus, Money 20/20, and others, we are also growing our hosted event calendar for 2018. These events build on the success of Swell in 2017 and expand our platform for telling the Ripple story across our product suite. Coupled with other new conference sponsorship opportunities and increased investment in public relations activities in 2018, these events drive a \$[REDACTED] increase in year-over-year expenses.
- **Facilities Expansion** - Based on headcount growth in 2017 and the upcoming increase expected in 2018, facilities costs are planned to be \$[REDACTED] higher next year.
  - The new San Francisco headquarters went into service during Q2 '17, so with a full year of occupancy slated for 2018, depreciation costs are rising by \$[REDACTED]
  - We are currently evaluating whether additional space is available in our San Francisco headquarters building and may procure for 2019 growth needs. This additional expense is not reflected in the current budget.
  - An increase of \$[REDACTED] is budgeted in 2018 to improve physical security with the addition on on-site guards and a global security alarm monitoring service.
  - Continued growth in the New York and London offices is driving \$[REDACTED] of incremental spend, as we graduate from co-working spaces to leased offices.
- **Legal** - With the [REDACTED] lawsuit ongoing, we are expecting \$[REDACTED] in additional legal expenses for 2018. This represents incremental legal fees.
- **Product Hosting** - Hosting expenses with Amazon Web Services are variable costs that increase as we develop new products and onboard customers. We expect these to grow in preparation for xVia and xRapid production releases and new customers going live on the hosted solution.
- **Information Security** - An effort began in 2017 to implement many of the crucial information security systems that companies in our space and of our size require. The budget continues to grow in 2018, with a number of initiatives required by law (ie. Bitlicense). Projects include security information and event management monitoring, data loss protection, secure document storage, and corporate penetration testing.

## 2018 Ripple Annual Plan

### Headcount

The primary driver of operating cost increases from 2017 to 2018 is headcount growth. This year-over-year increase of [REDACTED] net employees results in higher costs across payroll and benefits, as well as recruiting, people operations support, facilities, and general infrastructure expenses.

As in prior years, technical headcount growth continues to be an area of strategic focus in 2018, with [REDACTED] new employees expected by year-end. Investment in our Sales & Marketing teams also continues next year, particularly in New York and Asia, in support of production releases of xVia and xRapid.

### By Category

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	YoY Δ#	YoY Δ%
Total Headcount	[REDACTED]									
Sales & Marketing										
Technical										
Corporate										

### By Location

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	YoY Δ#	YoY Δ%
Total Headcount	[REDACTED]									
NA										
San Francisco										
New York										
Remote-NA										
EU										
London										
Luxembourg										
Remote-EU										
APAC										
Singapore										
Sydney										
India										
Remote-APAC										

## 2018 Ripple Annual Plan

### Functional Breakdown of Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
<b>Expenses</b>										
Salary & Benefits										
Consulting & Professional Fees										
Marketing Programs										
Facilities										
Technical										
Operations										
Corporate Expenses										
Depreciation & Amortization										
<b>Total Company Expenses</b>										
<b>YoY Growth</b>										
Salary & Benefits										
Consulting & Professional Fees										
Marketing Programs										
Facilities										
Technical										
Operations										
Corporate Expenses										
Depreciation & Amortization										
<b>Total Company Expenses</b>										
<b>% of Total Expenses</b>										
Salary & Benefits										
Consulting & Professional Fees										
Marketing Programs										
Facilities										
Technical										
Operations										
Corporate Expenses										
Depreciation & Amortization										
<b>Total Company Expenses</b>										

### Payroll & Related Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Payroll Expenses										
Employee Benefits										
Salary & Benefits										
YoY Growth										
% of Operating Expenses										

Increases in Salary & Benefits costs are primarily due to headcount growth. \$[REDACTED] of the increase, or [REDACTED]%, is attributed to hires made during 2017 as their salaries and benefits will annualize in 2018. The remaining [REDACTED] is driven by new hires in 2018. The Plan reflects an increase from [REDACTED] employees at year-end 2017 to [REDACTED] by year-end 2018, with key growth in Technical (+[REDACTED] headcount), Sales & Marketing (+[REDACTED] headcount), and Corporate (+[REDACTED] headcount).

Employee benefits expenses are predominantly driven by healthcare insurance costs, where we are forecasting an annual cost increase from ~\$[REDACTED] per employee in 2017 to ~\$[REDACTED] in 2018. This increase is driven both by rising costs for US plans, as well as expanded offerings in the UK to align with the market and the introduction of sponsored benefits for employees in Singapore.



## 2018 Ripple Annual Plan

### Consulting Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Consulting & Professional Fees										
YoY Growth										
% of Operating Expenses										

Consulting & Professional Fees consists of outside professional services costs, including legal counsel, accounting & audit firms, executive advisors, and implementation costs for information security initiatives. Overall, the category is growing slightly year-over-year due to increased investments in security initiatives and the use of external recruiting agencies to assist with strategic technical hires. These additional investments are offset to some degree by the roll-off of one-time costs in 2017 that are not expected again next year, like the [REDACTED]

### Marketing Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Marketing Expense										
Conference Sponsorship										
Public Relations and Other										
Marketing Programs										
YoY Growth										
% of Operating Expenses										

Marketing Programs are comprised of XRP promotional programs, hosted events and conferences, and public relations. The primary driver of the 2018 increase is an expansion of XRP incentive programs, which are increasing by \$[REDACTED]. These incentives are structured to be paid in XRP, but the customer may elect to receive the rebate in USD at a discount. The remaining \$[REDACTED] increase reflects an expansion of our hosted event and conference calendar for 2018 along with an increased investment in public relations activities in an effort to maintain our thought-leadership position.

### Facilities Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Rent										
Office Supplies & Meals										
Utilities & Maintenance										
Facilities										
YoY Growth										
% of Operating Expenses										

Facilities costs are comprised of rent, utilities, maintenance, as well as other employee-related costs like office supplies and company meals. The increase in rent forecasted for next year is due to remote office space expansion to support our growth to [REDACTED] employees. Given growth in 2017, we are graduating from co-working spaces in New York and London to leased offices in these locations. We also expect to be nearing capacity in San Francisco by the end of 2018. While additional floors in San Francisco have not been included in the 2018 budget plan, we may opt to expand opportunistically if space becomes available in our current headquarters location.

## 2018 Ripple Annual Plan

Growth in office supplies and meal expenses are also linked to continued headcount increases. In 2018, we are also making an effort to unify company culture across the globe by providing many of the benefits that employees in our San Francisco headquarters enjoy - refreshments, weekly lunches, dinners when working late, etc. - to our international locations.

### Technical Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Computer Equipment										
Software Subscriptions										
Hosting										
Technical										
YoY Growth										
% of Operating Expenses										

Technical costs consist of computer equipment, software, and hosting expenses. Computer equipment and software subscriptions increase, in part, because of growing headcount. The quicker rate of software growth is due to the implementation of several critical information security systems. With upcoming production releases of xVia and xRapid, we also expect hosting expenses to continue increasing as new customers sign up and go-live with our hosted solutions.

### Operations Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Travel & Entertainment										
Other Employee Expenses										
Operations										
YoY Growth										
% of Operating Expenses										
Per Employee										

Operations costs are primarily driven by travel & entertainment expenses, but also include other employee related expenses such as team-building, professional development, telephone, swag, etc. Though costs are increasing on an absolute basis, the per employee costs of \$ [REDACTED] per year is expected to remain relatively flat year-over-year. These expenses are largely concentrated on our client-facing teams in Sales & Marketing and Customer Success.

### Corporate Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Corporate Expenses										
YoY Growth										
% of Operating Expenses										

Corporate expenses include insurance premiums, company-wide events, corporate licenses, permits, and bank service charges. The increases in cost from 2017 to 2018 can be attributed to our growing employee population attending company-wide events and bank service charges tied to programmatic XRP sales. As new exchanges come online and the mix of XRP sales shifts from OTC to programmatic, we expect these fees will continue to grow.



## 2018 Ripple Annual Plan

### Depreciation & Amortization Expenses

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Depreciation & Amortization										
YoY Growth										
% of Operating Expenses										

Assets capitalized on our balance sheet include leasehold improvements, furniture and fixtures, and employee computer equipment. Approximately █% of the increase in 2018 D&A is related to facilities expansion. The majority of this increase is driven by the new San Francisco headquarters which went into service in 2017. The remaining increase is driven by computer equipment, a variable cost that increases with additional headcount.

### Capital Expenditures

	Q1 '17A	Q2 '17A	Q3 '17A	Q4 '17F	2017F	Q1 '18F	Q2 '18F	Q3 '18F	Q4 '18F	2018F
Computer Equip. & Software										
Furniture & Fixtures										
Leasehold Improvements										
Total Capital Expenditures										
YoY Growth										

Capital expenditures are expected to step down to \$█ in 2018 from \$█ in 2017. On a cash basis, this is a decrease to \$█ from \$█, due to the timing of payments and tenant improvement reimbursements from our San Francisco landlord. Due to construction of the new headquarters in 2017, we do not expect the same level of investment in 2018 for leasehold improvements or furniture and fixture costs.

2018 capital expenditures are composed of computer equipment for new hires, office expansion plans in New York and London, and additional workstation costs to densify the San Francisco headquarters. By the end of 2018, we will be nearing capacity on the existing floors in San Francisco. Buildout of additional floors has not been included in 2018, though we may opt to expand opportunistically if space becomes available.

## 2018 Ripple Annual Plan

### Annual Cash Flow Statement (\$M)

	2016A	2017F	2018F	'17-'18 Δ\$	'17-'18 Δ%
Operating Cash Flow					
Investing Cash Flow					
Financing Cash Flow					
Change in Cash					
Beginning Cash Balance					
Ending Cash Balance					

### Quarterly Cash Flow Statement (\$M)

	Outlook	2018 Plan	2018 Plan
Operating Cash Flow			
Investing Cash Flow			
Financing Cash Flow			
Change in Cash			
Beginning Cash Balance			
Ending Cash Balance			

### Cash Flow Forecast

Following 2017 in which we generated \$[REDACTED] in cash, we expect to generate [REDACTED] in 2018 with ending cash balance of [REDACTED]. The higher cash inflows from XRP sales are partially offset by increased operating expenses and corporate tax payments.

During 2017, we applied approximately [REDACTED] of our \$[REDACTED] in net operating loss carryforwards to offset positive operating income and our tax obligation. The remaining carryforwards are expected to be exhausted during Q1 '18. As a result, estimated tax payments have a significant impact on our 2018 cash position. While more efficient structures are under review, we currently expect to pay \$[REDACTED] in cash taxes during 2018 versus \$[REDACTED] in 2017. Based on the 2018 payment schedule, both Q1 '18 and Q2 '18 estimated tax payments are expected to be made in Q2.

## Separator Sheet

Transaction Volume OKRs	Q1 '18	Q2 '18	Q3 '18	Q4 '18	FY18
<b>xCurrent</b>					
xCurrent Deployments					
Cumulative xCurrent Deployments					
Txn / Deployment / Quarter (000)					
<b>xCurrent Transactions (000)</b>					
xCurrent Transaction Size (\$)					
xCurrent Volume (\$M)					
<b>xVia</b>					
xVia Deployments					
Cumulative xVia Deployments					
Txn / Deployment / Quarter (000)					
<b>xVia Transactions (000)</b>					
xVia Transaction Size (\$)					
xVia Volume (\$M)					
<b>xRapid</b>					
xRapid Volume Target (\$M)					
Avg. Transaction Size					
<b>xRapid Transactions (000)</b>					
<b>TOTAL</b>					
Total Volume (\$M)					
Total Transactions (000)					
Avg Blended Transaction Size					
<b># Transaction Target (Haircut &amp; Smoothed)</b>					
<b>\$ Transaction Target (Haircut &amp; Smoothed)</b>					
# Txn Haircut					
\$ Txn Haircut					